

**The Growing Impact of the Macro Environment**  
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**Abstract**

This article extends previous studies of available management actions to that of the external environment which is now becoming the dominant factor for both companies and national governments. It discusses likely trends but since changes are taking place so rapidly, avoids the danger of making a forecast for any particular year ahead.

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**BACKGROUND**

Chapter 1 of the 2010 BEP "Management Excellence" (1) book provided a concise summary of the elements in the study of management. These were subdivided into:

- a) elements internal to the organisation ( resources, skills, roles, processes)
- b) elements from the external microenvironment (customers, suppliers, competitors, banks...)
- c) elements emanating from the external macro environment (economic, technical, social, environmental, political...)

During the following few years as the micro environment became more severe, research effort was mostly devoted to examine how the internal operation of the firm could be improved to face up to these conditions.

An article on these activities was published in 2015 (2).

## **INTRODUCTION**

Following the subprime-caused financial crisis of 2007/8, money became more scarce and consumer demand started to decrease.

At the same time competition increased both from internal and external sources (favoured by excessive mondialisation), leading to reduced margins.

In response, some companies increased output to reduce unit costs causing an oversupply in many sectors such as textiles, household goods and recently steel.

Others put pressure on their suppliers forcing many out of business and even to suicide (French milk industry). Most tried to reduce staff especially those having less urgent roles based on their conceptual skills. An increasing tendency is seen in new entrants to related essential industries such as banks into insurance and vice versa with promotional offers which cannot be maintained in the longer term.

Since 2016 it is becoming evident that the external macro environment is probably becoming an even more dominant aspect in affecting strategies & outcomes. Many of the specific items likely to cause problems were already analysed in the ME book and some have come to light only six years later including the deficiencies of the EU (which led to Brexit), and the divisive electoral systems which harmed the USA but have perhaps been corrected in France by the election of President Macron.

In this text we concentrate on an analysis of future requirements related to the macro environment - an area not as yet sufficiently studied in Business Schools.

## **IMPACTS FROM THE MACRO ENVIROMENT**

### **1. Economic**

In order to recover from the above problems, governments counted on increased growth, which is difficult to achieve in a period of reduced demand and of disposable income difficulty for a large section of the population. Many companies, anxious to improve their financial ratings managed to do this by seeking out profitable areas such as sponsorship of sport and video games which may have been good for their stock exchange rating but which created little new employment or real wealth for their country.

Less unemployment yes, but also more real wealth creation and a halt in the increase of precarity levels\* should be defined in a comprehensive 'mission' to pursue. (\*One sixth of european salaried workers are classed in this category)

The desired progress has unfortunately not even been achieved in Germany, often cited as the example of success but where precarity levels have continued to rise to 20% and an individual's

life span in good health is 7 years shorter than that in France, a country judged inferior on most economic indicators.

At present, by giving business a free choice we have a situation of overproduction of goods in most sectors, with consequences such as the large amount of food thrown out past its selling date, articles of clothing which need to be cleared out by periodic sales promotions at negligible margins often using dozens of daily invasive emails.

Similarly there is excessive capacity in numerous services driving too many companies and their workers into those other sectors like insurance which have to be maintained. All this is happening at a time when essential services such as housing, medical care, are in short supply or getting more and more expensive.

Rather than just aiming for 'growth' it would therefore be more appropriate to start at the basics considering :

- What really needs to be done?
  - Who could do it efficiently?
  - Who can provide the necessary investment?
- and since all cannot be done at once,
- Where should the priorities lie?

A crucial element in the economic environment is the globalisation of trade. This process hailed in its early days principally because of the provision of goods at lowest prices for consumers, was allowed to go too far and led to the closure of many not inefficient firms with considerable job losses. Of particular concern is its effect on local agriculture and food industries since many products for human consumption need to have local sources of production for reasons of quality and rapid availability. The other side of this coin is the effect on workers in the producing countries who are too often paid miserable salaries for very long hours of work. This not only concerns third world countries like Bangladesh, but even some in southern Europe where textile industry workers can now earn less than their Chinese counterparts!

Correctly managing these situations is a challenge for world and regional institutions such as the EU as individual countries do not possess enough 'clout'

## **2. Technological**

With penury in market demand, companies have greatly increased their efforts in new technologies. Many novel things have been discovered in almost every industry. Unfortunately few of these have been creators of large scale employment like were automobiles or chemicals in the past. On the contrary, the increasing productivity, automation and use of digital applications

have tended to reduce jobs in manufacturing and perhaps even more so in services such as banking or travel.

One extreme example is that of Airbus who, while benefiting from a massive order book, is from time to time reducing staff numbers.

The increase of sharing/repairing rather than more manufacturing is also a tendency to take into account - the number of cars owned is likely to decline.

Of course there has been a huge rise in the number of start-ups, most of them using various applications of digital processing. However the vast majority of these have involved only small numbers of hired staff working for creators who themselves have quickly become wealthy via stock exchange placings. No doubt they are seeking to imitate Google, Apple, Facebook, three members of the GAFAM 'Big Five' now valued at no less than \$3000 billion (a figure exceeding the GDP of France!)

In terms of essential benefits we should therefore not succumb to excessive digitalisation like we did to excessive globalisation which is now showing up many disadvantages.

A further unfortunate aspect is that the funds which have poured into many of these start-up firms have not only been of relatively little benefit to their countries in terms of tax income or employment, but have sucked money into sectors of convenience, entertainment, exotic technologies (e.g. aero planes without pilots), neglecting associated social aspects and more essential sectors such as the new antibiotics.

### **3. Environmental Pollution & climate**

The importance of the environmental problem has finally been generally accepted. A very positive step has been the greatly increased number of companies inscribed under that RSV label agreeing to protect the local and world environment through actions such as recycling & reduced atmospheric pollution. However the extent of this good citizenship is limited by the need to avoid a significant reduction in their profits.

Moreover, such local actions are only a small element in the world-wide picture of global warming which is increasingly affecting all parts of the planet.

Specifically, in addition to polluted air to be found in metropolises everywhere, much of Northern Europe is becoming short of water, Southern Europe suffering more forest fires, California & Africa more serious draughts and SE Asia more frequent storms and flooding.

The agreements made under COP21, even if adhered to by all, are inadequate to halt this progression as not enough resources can be made available bearing in mind all the other investment also required eg in renewable energy projects, closure and dismantling of existing facilities-especially nuclear power stations.

Those who put all their hopes in electric cars seem to forget that the electricity has to be generated somehow i.e. these cars are mainly a solution to reduce pollution in the big cities.

The sober picture above had already been predicted by scientists well before year 2000, taking into account growth in world population (now expected to increase 50% from 7 to 10.5 billion) by the end of the century. They even postulated that the human species will by then be on the road to extinction initially due to hunger and thirst in the poorer countries (arid conditions), and subsequently due to submersion of certain vulnerable large metropolises from the melting ice caps (an 80 cm rise in sea levels can wipe out a city of several million people)

## **Conflicts**

Another important aspect to consider under the heading of environment is that related to conflicts which affect not only the locals but also visitors and potential investors. Their number has been increasing at great pace in almost every part of the world. The underlying reasons are not so much territorial gains as used to be the case in the distant past, but conflicts between religions (Muslims against others, or among themselves ), or between tribes and politicians on a national scale.

As will be discussed in Section 6, the latter aspect is facilitated by political systems inherited from the west in which divisive elections pit an incumbent president against most of the rest of the population considered as an 'obstructive opposition'.

The current situation in Venezuela is one of the best examples but which fortunately has not so far turned into armed warfare as is the case in the Middle East and much of Africa.

## **4. Sociological**

Considerable research output has been generated in this discipline during recent years, but not much of this has been utilized by the business nor the political community.

Probably the major factor has been that societies which had been relatively homogeneous have become diverse from several different aspects. Firstly in terms of disposable income which had created a 'middle class' from among the poorer strata but which, since the financial crises of 2008, has been driving many of them back into a precarious state. Or putting it another way, between those who are reasonably comfortable and those who foresee a very difficult future. (Hence current French conflict on proposed changes in labour laws)

Secondly, and related to this, the growing disparity between the young and seniors now in retirement. The former having difficulty in finding employment and therefore prolonging their studies, (at great expense in numerous countries), or lacking skills or willingness to accept vacancies in less attractive sectors. Fortunately many of them have been financially aided by

parents who benefit from a decent pension after a lifetime of employment (if it has not been cut by austerity measures like in several S/SE European countries).

This divergence has been vividly illustrated by the recent US & UK voting patterns where, as opposed to the young, a disgruntled middle class were heavily pro-Trump and UK seniors pro-Brexit.

For the future, there must be concern as to how many of these young people, avid mainly in the social media, festivals, sport and other amusements, can (or are willing) to earn their living doing useful, if sometimes boring work in old style type companies. Although some jobs proposed to them may be unexciting (100K vacancies in the hotel /restaurant industry in France!), there are others where candidates have also been lacking, such as assembly of the latest Peugeot model in the Rennes factory. At the same time, frequently living on a very tight budget, many of the young will readily spend 50€ on a festival concert or even 100€ on the shirt of a famous footballer.

Another increasing division taking place is that between dwellers of city and rural areas, as most new developments are being made in the former while rural areas are becoming a location for the old and the over 50s who now have difficulty in finding new jobs. This kind of lack of territorial planning, (largely due to competition between metropolises to attract new investment), also has a negative side for the cities in creating shortages of lodgings and school places, and in increasing traffic congestion.

A fourth tendency, which has appeared in the UK, Hungary, Poland (and currently in Catalonia), is the desire of many citizens to maintain sole control of their affairs and retain traditional and cultural values which they see disappearing from excessive liberties, immigration of other nationals, or now even excessive numbers of tourists in their attractive cities! As well as creating a less friendly and divided society, this is already causing practical difficulties such as shortages of nursing staff in the UK and of workers in auto plants in Slovakia.

As a final comment in this section, should we accept that there are so many healthy people in the ranks of sport etc. who are paid lots of money while contributing little to the important needs of society?

## **5. Financial**

Since the crisis of 2007/8, the financial environment has been at the forefront of attention although a certain degree of stability seems now to have been reached. The consequences for various parties can be briefly summarised as follows:

- Most of the financial institutions have been saved due central bank actions favourable to them but which has caused austerity in many countries especially in Southern Europe,

where citizens have suffered from reduced pensions, de-possession of lodgings and unemployment.

- Many nation states have been badly hit in terms of deficits and debt , except for Germany benefitting from cheaper former eastern region labour and a favourable exchange rate.
- In general, company failures have not been as widespread as feared largely because of the possibility of reducing labour numbers or costs.
- Those who have been little affected (or even gained), are the very rich whose wealth has continued to grow to the point where the top 10 now possess as much as half the world population!

Putting aside any notions of jealousy or injustice, most of the money belonging to the very rich is placed in assets or funds likely to substantially increase in value and is thus not targeted into investment in essential or wealth creating projects for citizens of the country (which would never produce the same kind of rate of return).

As typical indicators, the funds available to W. Buffet are estimated at around \$100 billion, and after 10 years Apple possessed \$250b in cash! And here we are talking about funds accumulated legally (if sometimes under deficient taxation systems), without considering those accumulated illegally via corruption, and criminal activities.

In summary it seems that citizen's well-being will have to depend largely on investments by the state and which will therefore imply paying more taxes in one form or other. Some can be relatively painless like the higher rate of TVA for luxury goods /services proposed by the author several years ago and now being rediscussed. After all, 800€ more on a 40K€ car or 10€ on a 250€ hotel room will not put off the prospective buyer.

## **6. Political**

In the past with the exception of interest & exchange rates, it was essentially the country's own politicians who determined what happened within its borders. However in recent years we have reached a situation where external events have become dominant to such an extent that internally made decisions are also at the mercy of what transpires outside. [Politicians who ignored this fact tended to make unrealistic promises such as that of President Hollande that he would reverse the unemployment curve within 2-3 years of taking office]

The two major events triggering this situation were the excessive liberisation of transfer of money and goods which led to the subprime crisis, and an unmitigated trend towards mondialisation. Unfortunately, as analysed in the 2010 BEP book, the EU while imposing all kinds of internal regulations, did not do enough to protect member countries against these external forces. As little progress was even made in succeeding years, nations like GB (Brexit), Poland (Kaczynski), think that they could do better on their own.

These tendencies are partly accentuated by the weakness of national political systems which was also discussed in the book (along with some possible improvements).

Presidential type elections and referenda are very divisive and near to 50/50 results split nations into "us and them" with insufficient regard for national conciliation and overall consequences.

The severity of the divisions has lately been seen in the results of the national elections in that USA and the referenda in the UK and Catalonia. [In less developed countries such elections, coupled with massive corruption, often deteriorate into armed conflicts]

Having looked at the weaknesses of existing political systems, it is necessary to examine the nature of the political leaders who emerge from these systems. Leaving aside those who function in a dictatorial fashion, most suffer from various weaknesses to be analysed in a subsequent article on the author's website. (3)

A common factor is their reluctance to face realities claiming that they can overcome most problems since lack of optimism is a barrier against being elected in the first place. Once elected, they do not sufficiently anticipate events (even having had warnings), few find an equitable balance between reflection and their eventual actions the consequences of which have not usually been sufficiently evaluated. Moreover, too often they tend to act on less important problems which are generally easier to handle, and without fully considering their effect on other related matters.

Of course the above behavioural characteristics have a serious bearing on the business, social and other topics discussed in the previous sections of the article.

## **CONCLUSIONS**

In recent years the external environment has taken an increasingly dominant role in world affairs reducing the freedom of most companies and nations to implement their own decisions. As always, over-confident political leaders avoid too much discussion on future constraints to problems which many individuals questioned in surveys do sense as forthcoming.

There are three major problems with which the world is faced:

- the disparity of living standards,
- armed conflicts, and
- the earth's environment (pollution, climate, life necessities like food & water).

The three are responsible for a fourth i.e. migration which, even with the best humanitarian will, cannot otherwise be resolved since without restrictions maybe 30 million migrants would like to come to the USA and similarly to Europe.



As principal 'basic' causes of these problems we can identify excessive population growth, an increasing shortage of available financial resources, and the quest for power & wealth among the ruling classes.

*Global population* is becoming excessive relative to the capacity of the planet and is not matched by sufficient wealth creation/repartition to stop the descent into precarity for more and more people. The Chinese type birth limitation is not envisaged for India and the African nations which are forecast to grow the most, although a few other countries like Bulgaria, Russia and particularly Japan (40 million decrease forecast by year 2100), are seeing this happen voluntarily.

*Financial resources* which could alleviate all three problems are unfortunately passing into the hands of the very rich and not being much used to create real wealth and a better life for citizens as they can be invested more profitably elsewhere-typically in providing exotic products for the wealthy (e.g. flying taxis), or greater entertainment (sporting events, festivals, films...) for the others.

*Power & wealth* effects -a major cause for conflicts, can be seen not only in post (fraudulent) African elections, but in corruption or fictitious payments even in otherwise exemplary democratic countries.

As auxiliary causes are *government management inadequacies* such as insufficient linking of education to jobs. An example is to have students overloading university places if once graduated they have no jobs and, like in South Korea, they pay big money to emigrate to the USA, even to initially do mundane agricultural work.

In addition, we should recognize that *citizen behaviour* is partly to blame because too many want to have their convenience, comfort or entertainment even if this may bring more problems rather than long term benefits.

Overall, the key issue is that there will just not be enough resources to consecrate to all the problems which seem to be increasing every year. This fact is most relevant to the environmental element and has just been clearly illustrated by the recent hurricanes in the west Atlantic which will require enormous re-construction costs.

And even if these resources were available, we largely lack two essential implementation aspects namely:

- a) Securing agreement among the increasingly divided society groups as to how to deal with these problems.
- b) Enabling appropriate institutions to enforce the necessary measures.

In the light of all the above discussed circumstances citizens will have to accept that we have to change the way in which we run our affairs if at least we want to minimize/delay the painful outcomes with which we are likely to faced.

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